

# **TRANSPORTATION REPORT**

From: Terry Whiteside

To: Montana Wheat & Barley Committee

Date: September 9, 2010



## **ARE YOU READY FOR MORE RAIL TARIFF RATE INCREASES ON GRAIN EVEN THOUGH THEY ARE HISTORIC HIGHS ALREADY? - IN-DEPTH ANALYSIS**

Historically, the nation's railroads with their market dominant powers raise rates whenever the price of grain (wheat) increases for any length of time. The railroads reasoning - uttered a few years ago by a railroad press agent (who subsequently lost his job) was that is the farm producers are starting to receive more money - the railroad wants to get its share of any increase in the prices of grain. The railroads will point to the age old argument that they need more money to update rail and plant, buy locomotives and replace cars. Yet the farm producers continue to pay some of the highest and most profitable rates the railroad's charge.

Look for the BNSF and UP to start to announce rate increases in the coming months - on top of the increases they have already taken from every section of the wheat belt this year. Be mindful, that the freight rates for movement of grains and wheat in the west and to the Gulf are at virtually the highest they have ever been in history (with and without fuel surcharges) and the railroads want more. BNSF increased its southern rates in June, 2010 and northern states in August, 2010 - up \$90-\$150/car. UP wheat rates were increased in June, 2010 by \$75+/car. Look for rate increases to be at least \$90-\$150/car as railroads seek to

'get their share' of increased wheat prices. Look for announcement of increases in the next four months.

**Why are the railroads contemplating levying more rate increases in these economically uncertain times, as one savvy farmer producer stated it recently, "Because they can!"**

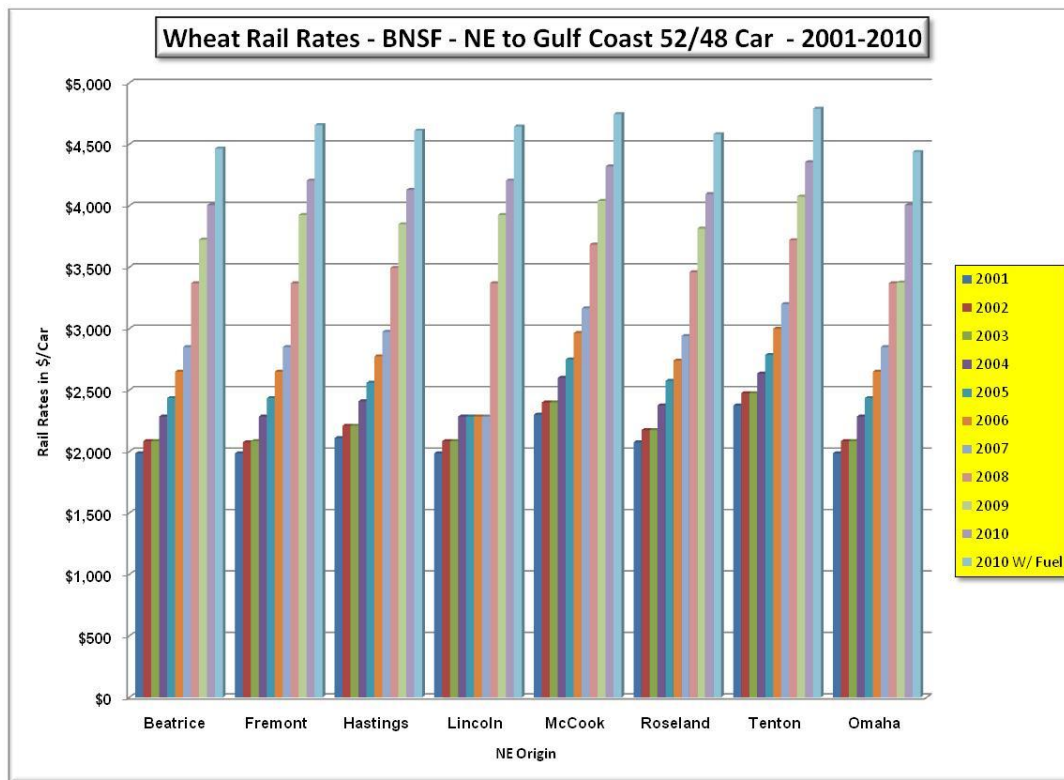
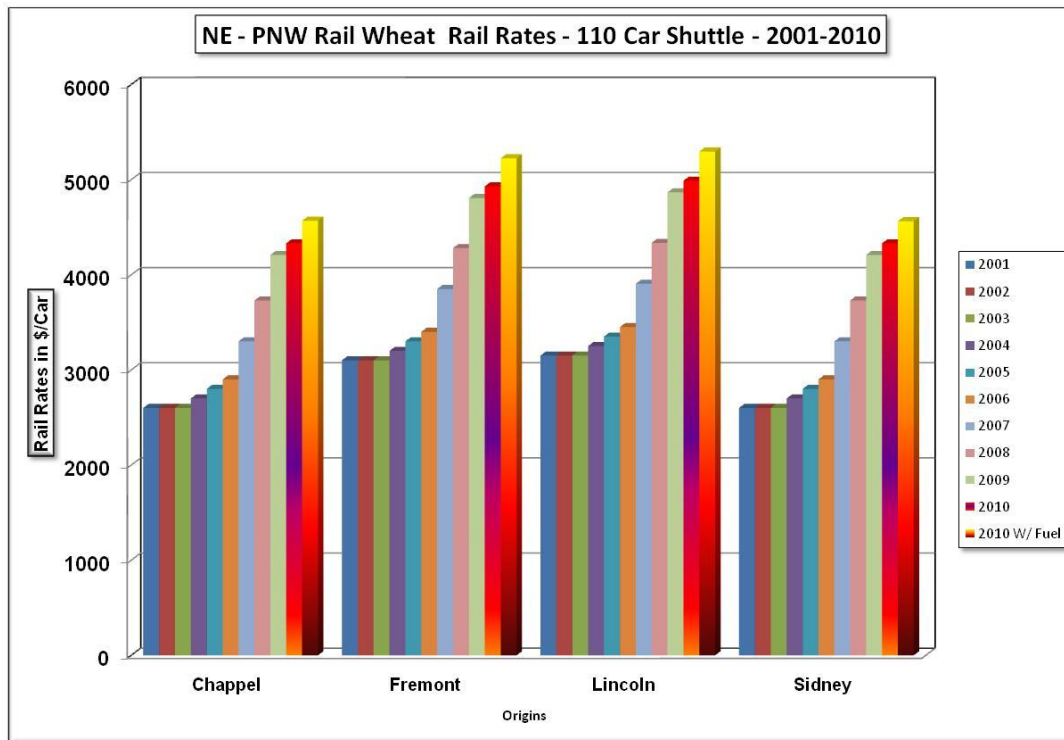
The higher prices that wheat producers are seeing is due to world wheat supply and demand and those prices will not remain indefinitely at elevated levels, however rest assured that when and if the prices for wheat fall back to historic levels - THE ELEVATED RAIL FREIGHT RATES WILL NOT FALL - one can take that to the bank.

### **RATE HISTORIES FOR FEW OF THE GRAIN STATES**

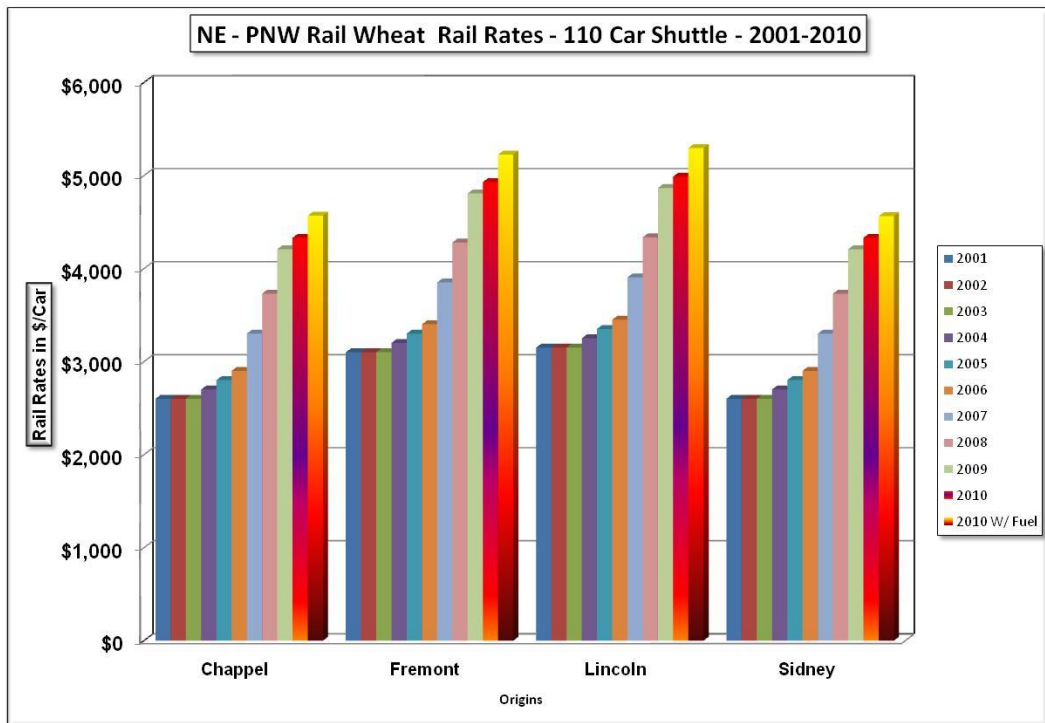
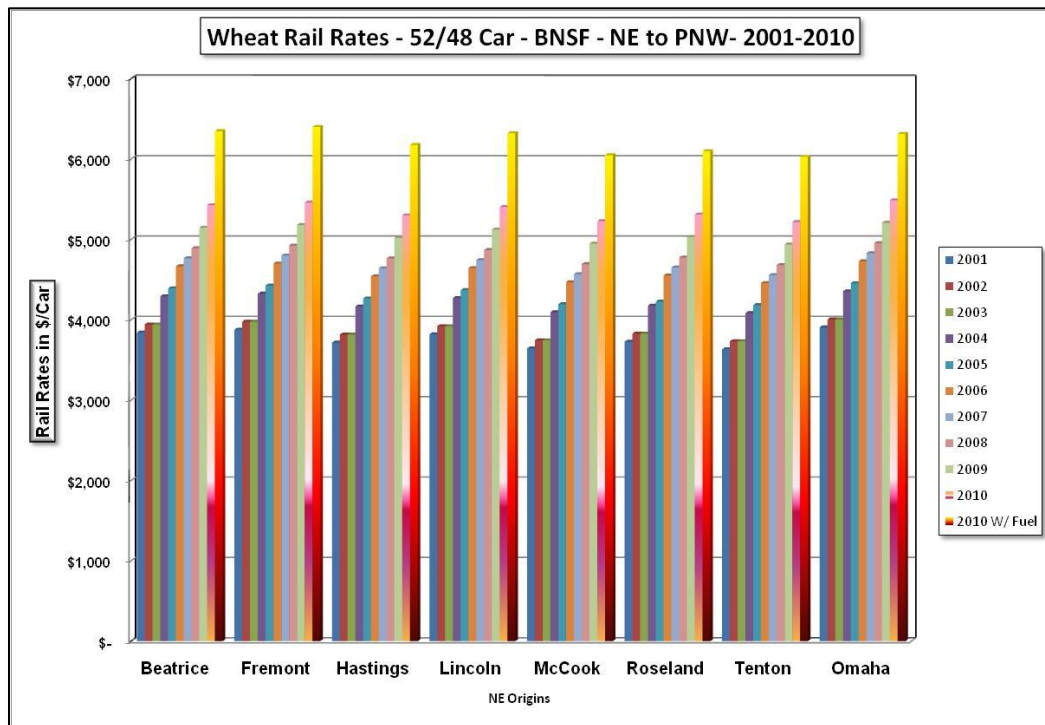
An examination of the freight histories for various states shows an alarming trend of ever-upward increases. Transportation Reports will cover additional states in coming editions.

#### **NEBRASKA:**

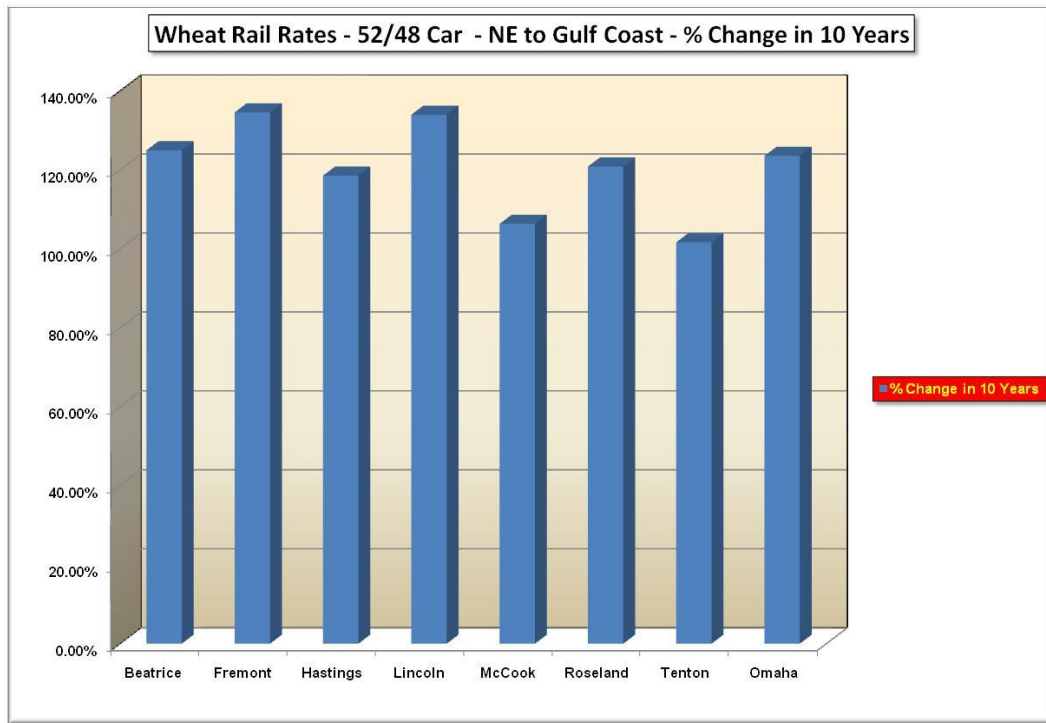
Nebraska wheat rates to the PNW AND GULF over the last ten years have skyrocketed. Shuttle rates up 70 to 80%, Revenue to Variable cost levels running 210% to over 270% of variable (the STB Threshold is 180%).



Going to the Gulf Coast or PNW from NE - the rail rates show large increases.

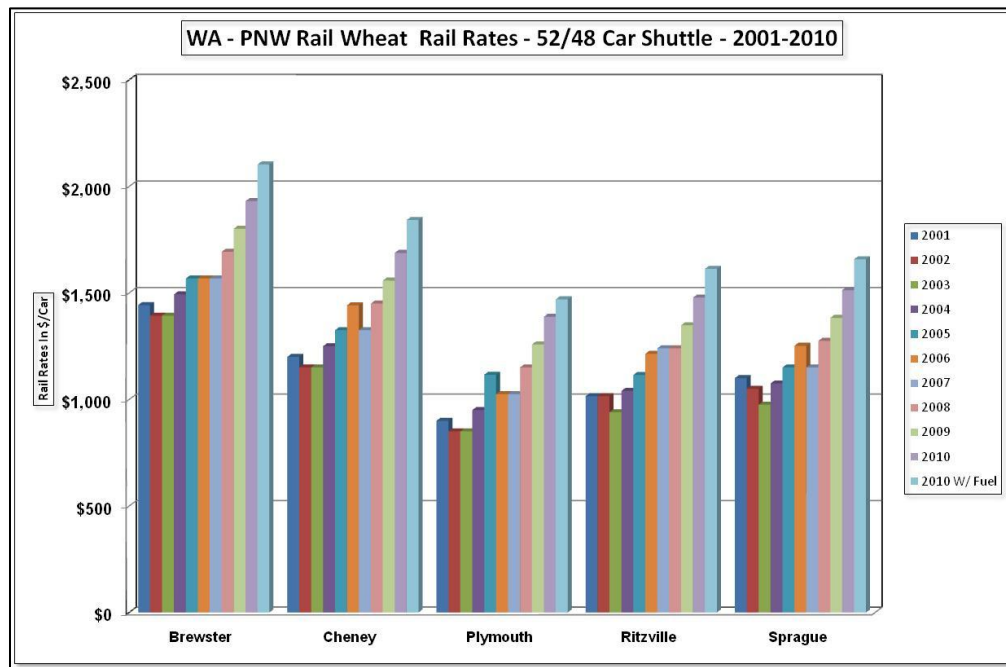


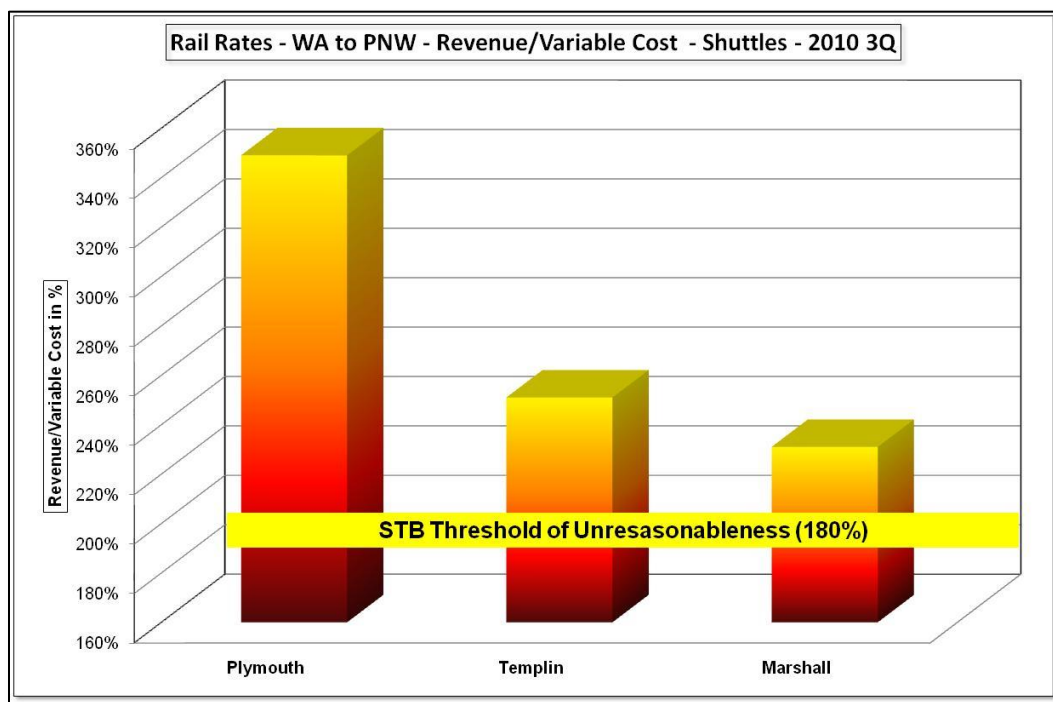
The Nebraska non-shuttle rates to the Gulf Coast have increased 100% to 140% and they are not done rising yet.



## Washington:

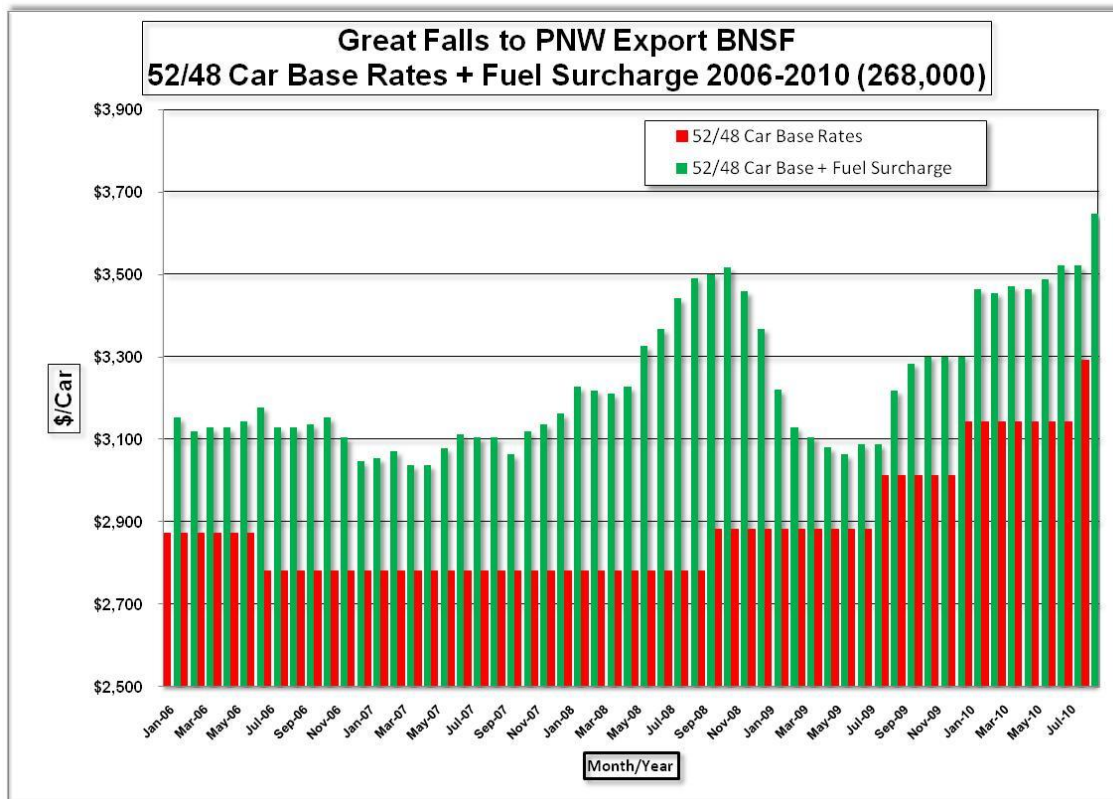
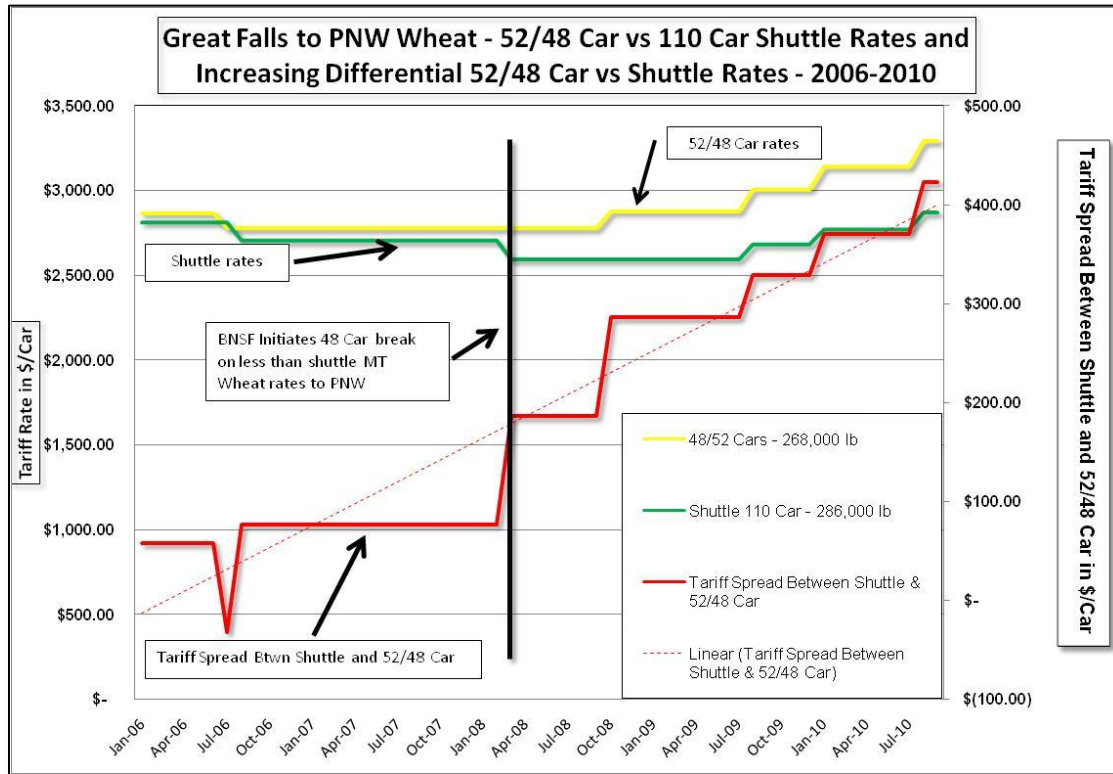
Similar increases and even higher Revenue to Variable Cost are evident in movement from Washington to PNW.



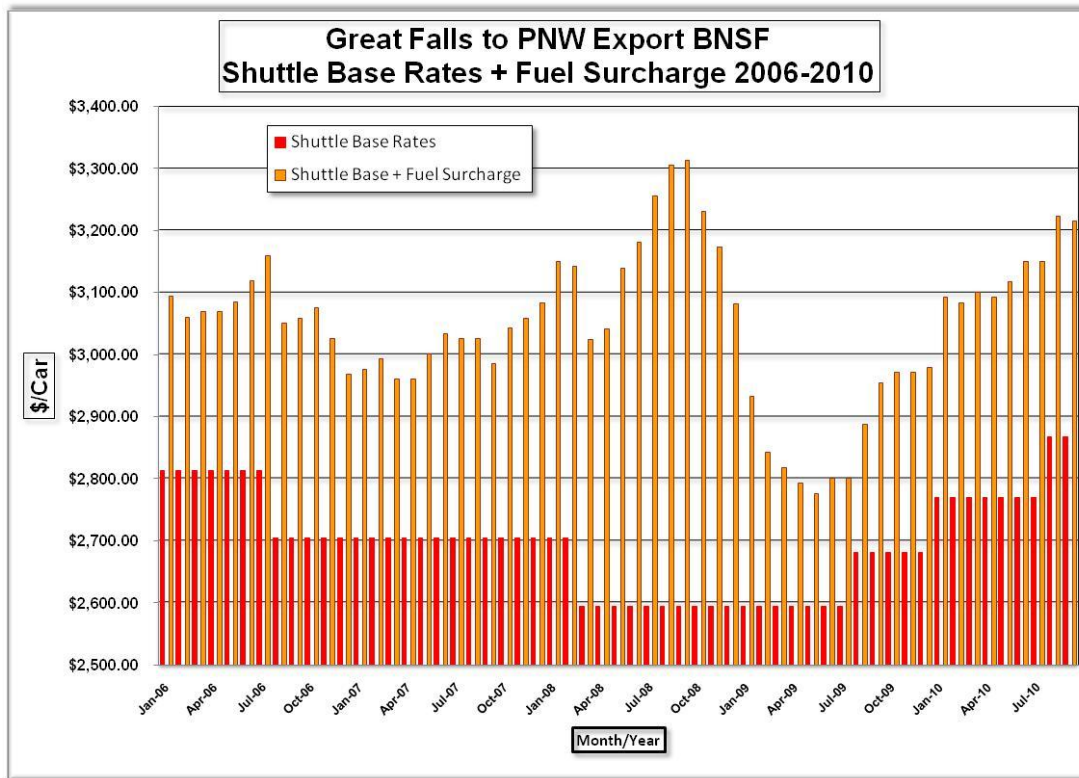


## Montana

Montana is paying the highest freight rates ever and they continue to see ever increasing spreads between the shuttle and non-shuttle rates. These spreads are at historic highs and are causing alarm by the non-shuttle facility operators. The railroad's explanation about the fact that non-shuttle operations cost more than shuttle operations don't hold water. Every non-shuttle (used to be 52 car now 48 car) movement is 'married' up to another 52/48 car movement as soon as possible on the rail system and then moved to final destination as a 96+ car unit. How is the cost of the predominance of the haul materially different than moving a 110 car shuttle? It isn't and the rate spreads between shuttle and non-shuttle have reached unprecedented levels. The Montana Attorney General has filed a complaint on the 48 vs 52 car issue. It is interesting to note that the fast paced increases in spread between non-shuttle and shuttle - took off after the BNSF moved from 52 car to 48 car limited movements. The effect, according to the Montana Attorney General's complaint is that the move by BNSF was a 'gaming' of the rate structures to put the 48 car unit train size below the 180% STB challenge point, thus allowing the 52/48 car rates to be increased faster than shuttle rates.







### Colorado:

BNSF has cancelled shuttle tariff rates to PNW from CO elevators and continues to increase base rates both north (PNW) and south (Gulf). The CO producers are bearing some of the highest freight rates in history.

### Kansas and Oklahoma and Texas:

Kansas, Oklahoma, and Texas rate history mirrors Nebraska sharp increases in the last 10 years.

### Idaho

Southern Idaho is captive to the UP and is being subjected to some of the highest freight rates in the nation - having taken very large increases during the last 10 years.

### South Dakota and North Dakota

Both South Dakota and North Dakota are captive to the BNSF and have shared similar rate histories as Montana.